

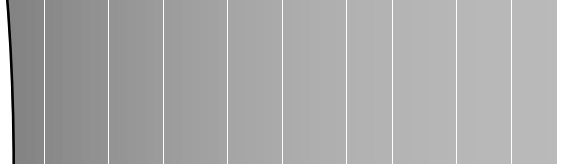
Capital Assets and Infrastructure

Exhibit 1

Capitalization Policy

GASB 34
Implementation Training

Spring 2003



Capitalization Policy

The policy of the _____ Fiscal Court is to capitalize assets when the useful life is greater than one year and the acquisition cost meets the capitalization threshold.

Purchased or constructed capital assets and infrastructure are reported at acquisition or construction cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation.

Capital assets and infrastructure are capitalized and depreciated as outlined in the attached capitalization threshold table for the _____ Fiscal Court.

Assets will be depreciated on the straight-line basis over their estimated useful lives as outlined below.

The useful life table below shows the useful life by asset type for the _____ Fiscal Court.

Asset	Useful Life (Expressed in Years)
Land Improvements	10-60
Buildings	10-75
Building Improvements	
Machinery and Equipment	3-25
Infrastructure	10-50
Intangibles	2-40

Note:

Each governmental entity may face different issues/situations that should be resolved based on the particular facts, circumstances, and materiality levels of that entity.

Capitalization Threshold Table

Government Entities with Revenues Less Than \$10 million (Phase III governments)

	<u>Tracking and Inventory</u>	<u>Capitalize and Depreciate</u>
Land	\$1	Capitalize Only
Land Improvements	\$1	\$12,500
Building	\$1	\$25,000
Building Improvements	\$1	\$25,000
Construction in Progress	\$1	Capitalize Only
Machinery and Equipment	\$500	\$2,500
Vehicle	\$500	\$2,500
Infrastructure	\$10,000	\$20,000

Governmental Entities with Revenues between \$10 and \$100 million (Phase II)

	<u>Tracking and Inventory</u>	<u>Capitalize and Depreciate</u>
Land	\$1	Capitalize Only
Land Improvements	\$1	\$25,000
Building	\$1	\$50,000
Building Improvements	\$1	\$50,000
Construction in Progress	\$1	Capitalize Only
Machinery and Equipment	\$1,000	\$5,000
Vehicle	\$1,000	\$5,000
Infrastructure	\$15,000	\$25,000

Governmental Entities with Revenues exceeding \$100 million (Phase I)

	<u>Tracking and Inventory</u>	<u>Capitalize and Depreciate</u>
Land	\$1	Capitalize Only
Land Improvements	\$1	\$50,000
Building	\$1	\$100,000
Building Improvements	\$1	\$100,000
Construction in Progress	\$1	Capitalize Only
Machinery and Equipment	\$1,000	\$5,000
Vehicle	\$1,000	\$5,000
Infrastructure	\$50,000	\$500,000

Guidance on Capitalization Thresholds

Excerpt from “Governmental Accounting, Auditing, and Financial Reporting”:

“By definition, any asset that benefits more than one fiscal period potentially could be classified as a capital asset. As a practical matter, however, governments capitalize only their higher cost assets. That is, governments specify a dollar value or *capitalization threshold* that assets must exceed if they are to be capitalized. Governments are free to select different capitalization thresholds for different capital asset classes, just as they are free to apply different depreciation methods to different capital asset classes.

Governments must, of course, maintain adequate control over all assets, including lower-cost capital assets. Capitalization, however, which necessarily focuses on a government’s *financial reporting needs*, is neither designed for nor particularly suited to this purpose. There are means more effective and efficient than capitalization for ensuring control over a government’s lower-cost assets. Indeed, the capitalization of numerous small items can have a deleterious effect by overburdening the overall capital asset management system. Accordingly, governments are urged to choose their capitalization thresholds based exclusively on their financial reporting needs, and to use alternative means to ensure control over lower-cost assets.

By nature, infrastructure assets normally are expected to exceed any capitalization threshold set by the government. As a rule, 20 percent of other types of potential capital assets typically account for at least 80 percent of total cost. Therefore, in the case of potential capital assets other than infrastructure, it is recommended that capitalization thresholds be designed to capture 80 percent of the total cost of a government’s potential non-infrastructure assets...”

Additional Information

The capitalization policy should address all exceptions. For example:

- Unique items that you want to track and inventory regardless of the cost (e.g. weapons for police)
- Groups/classes of assets where individual asset items are less than the capitalization limit, but when all assets of that group are added together the dollar amount far exceeds the capitalization limit. These groups/classes of assets should be capitalized and depreciated. (e.g. infrastructure, computer systems, library books, etc.)